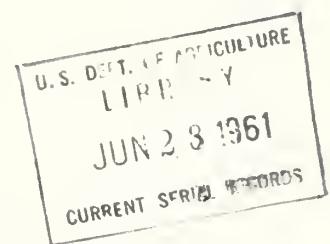


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Prospects for Foreign Trade in



COTTON

Foreign Agricultural Service
UNITED STATES DEPARTMENT OF AGRICULTURE
May 1961

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PROSPECTS FOR FOREIGN TRADE IN COTTON

OUTLOOK

World cotton consumption is expected to continue its upward trend during the next few years, as general economic conditions and foreign exchange positions improve and population continues to increase.

Increases in consumption, however, will probably not be fully reflected in cotton trade because about 70 percent of world cotton consumption is in countries that produce all or most of the cotton used by their domestic mill industries. World trade in 1960-61 is expected to total about 16.0 million bales,¹ which is second only to the record high of 17.2 million reported last season. Starting from the current high base, world cotton trade in the next few years may not average significantly higher than in the peak year of 1959-60, but the U.S. share can vary considerably because of changes in foreign production, consumption, and prices.

It is axiomatic that higher world prices for cotton lead to increased production in many foreign countries. Production of man-made fibers continues to increase and there is little doubt that higher cotton prices will result in increased competition from man-made fibers.

WORLD SITUATION

The world cotton situation in 1960-61 is featured by —

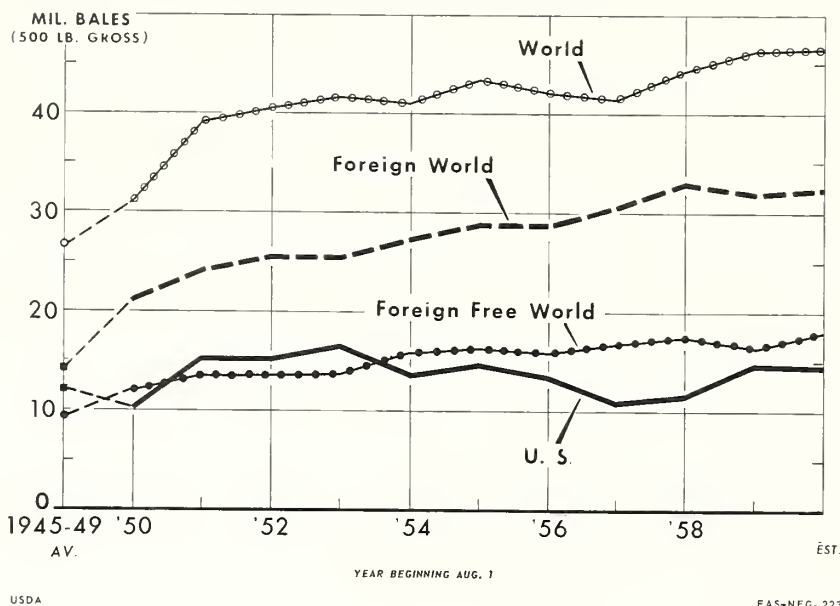
- Continuing high levels of consumption and trade, although slightly under the record high reported for 1959-60;
- Record-high production approximately in balance with consumption;
- Maintenance of U.S. and world stocks at about the level of a year earlier; and
- Increases in prices for upland type cotton in the principal world markets since early in 1959.

World cotton consumption and production appear to be approximately in balance in 1960-61, with each estimated at about 46.7 million bales. During the 5 years prior to 1956-57, world production exceeded world consumption by a little over 12.0 million bales, stocks abroad showed no significant change, and the entire excess of world production was reflected in a 12.2-million-bale increase in U.S. stocks. During the next 5 years, ending with 1960-61, U.S. export prices were generally more competitive, the rate of increase in foreign production was slowed down, and foreign consumption increased more rapidly. World consumption in these last 5 years exceeded world production by more than 5.0 million bales, and stocks abroad rose, mostly in importing countries, by a little over 2.0 million bales. These two figures are directly reflected in the reduction of almost 7.0 million bales in U.S. stocks — from 14.5 million bales on August 1, 1956, to an estimated total of around 7.6 million at the end of the current season.

World consumption in 1960-61 apparently will be slightly under last year's peak and will probably level off next season with increases in some countries offsetting decreases in others.

¹All bale figures in this report are in terms of 500 pounds gross weight, except U.S. figures, which are in running bales.

World Cotton Production at Record High



World production in 1961-62 appears likely to increase by 1.5 million to 2.0 million bales and can possibly exceed world consumption by that amount. Most of the decline in world consumption in 1960-61 occurred in the United States, Communist China, and the Soviet Union.

Supply

The world supply of cotton for 1960-61, made up of stocks at the beginning of the season and production during the season, is estimated at 67.0 million bales, a reduction of about 1.0 million from last year's record supply. Production of 46.7 million bales in 1960-61 is up 0.3 million from a year ago while beginning season stocks were down by 1.3 million bales, to 20.3 million.

The 1960-61 supply outside the United States, estimated at 45.2 million bales, is about 0.7 million larger than in 1959-60. This increase is mainly a reflection of larger stocks in foreign Free World importing countries and increased production in the foreign Free World as a whole. It was partly offset by production declines in Communist China and the Soviet Union. The lack of need for inventory rebuilding in importing countries except India is the principal reason for the expected slight reduction in world trade in 1960-61. However, the recently announced increase in U.S. price supports for the 1961 crop over those for the current season may encourage importers abroad to maintain their stocks near last year's level — against the possibility of higher export prices for next season.

The U.S. supply of 22.0 million bales (all types) for 1960-61 is about 1.6 million bales less than a year ago, and is mainly a reflection of a 1.3 million-bale reduction in carryover between the beginning and ending of the 1959-60 season. These supply figures for 1960-61 and 1959-60 each include about 0.3 million bales of extra-long staple cotton.

Stocks

World cotton stocks on hand July 31, 1961, are expected to be about equal to the 20.3 million reported last July as world consumption and world production are in approximate balance this year. This balance follows 4 consecutive years in which world stocks have declined since the peak of 25.1 million bales was reached in 1956. The trend may be reversed in 1961-62.

TABLE 1.—World cotton stocks, production, consumption, and exports, by area, 1955-60 1/

Item and area	1955	1956	1957	1958	1959 prelimi- nary	1960 estimated
	Million bales ²	Million bales ²	Million bales ²	Million bales ²	Million bales ²	Million bales ²
Beginning stocks:						
United States.	11.2	14.5	11.3	8.7	8.9	7.6
Foreign Free World:						
Exporting countries	3.9	2.9	3.4	4.1	3.7	3.2
Importing countries ³	5.9	5.2	6.2	6.1	5.5	6.2
Communist countries	2.1	2.5	2.8	3.3	3.5	3.5
Foreign total.	11.9	10.6	12.4	13.5	12.7	12.9
World total.	23.1	25.1	23.7	22.2	21.6	20.5
Production:						
United States ⁴	14.7	13.0	11.0	11.4	14.6	14.3
Foreign Free World.	16.3	15.9	16.8	17.5	16.5	18.0
Communist countries	12.6	13.0	13.7	15.5	15.4	14.4
Foreign total.	28.9	28.9	30.5	33.0	31.9	32.4
World total.	43.6	41.9	41.5	44.4	46.5	46.7
Consumption: ⁵						
United States.	9.2	8.6	8.0	8.7	9.0	8.0
Foreign Free World:						
Exporting countries	4.2	4.4	4.5	4.8	4.9	5.0
Importing countries	15.1	16.6	15.9	15.5	17.0	17.3
Communist countries	12.9	13.4	14.7	16.0	16.9	16.7
Foreign total.	32.2	34.4	35.1	36.3	38.8	39.0
World total.	41.4	43.0	43.1	45.0	47.8	47.0
Exports:						
United States.	2.2	7.6	5.7	2.8	7.2	6.5
Foreign Free World ⁶	9.3	6.7	6.9	8.7	8.2	8.0
Communist countries	1.6	1.5	1.5	2.0	1.8	1.5
Foreign total.	10.9	8.2	8.4	10.7	10.0	9.5
World total.	13.1	15.8	14.1	13.5	17.2	16.0
Exports, net, Free World to Communist.7	.7	1.3	1.2	1.3	1.6

1/ Year beginning August 1. 2/ 500 pounds gross weight, except for U.S. cotton, which is in running bales. 3/ Includes cotton afloat, in transit, and in free ports. 4/ In-season ginnings plus city crop and small allowance for adjusting balance where necessary. 5/ Includes cotton destroyed or unaccounted for. 6/ Includes small amounts reexported.

The distribution of world stocks at the end of the current season is expected to be similar to that of a year ago. A slight increase in stocks in foreign Free World exporting and importing countries, especially India, may slightly more than balance small decreases in stocks in the Soviet Union and Communist China. Decreases in the latter two countries are expected as a result of reduced production in 1960, only partly compensated by larger imports. Stocks in foreign Free World importing countries will probably remain at a fully adequate working level on July 31, 1961, and no further buildup may be expected in 1961-62.

U.S. stocks on July 31, 1961, are expected to be about the same as the total of 7,559,000 bales reported on July 31, 1960, and will include stocks of extra-long staple not greatly different from the 154,000 bales of a year earlier.

Production

World cotton production in 1960-61 is estimated at 46.7 million bales, a new record high despite a million-bale drop in Communist countries and a reduction of nearly 0.3 million bales in the United States from the 1959-60 figures. The world total is about 0.3 million bales larger than the 1959-60 estimate of 46.4 million, which itself was a record to that date.

Foreign Free World production, estimated at 18.0 million bales for 1960-61, is about 1.5 million bales higher than in the previous year and 0.5 million above the previous record of 17.5 million bales reported for 1958-59. More than half of the increase in 1960-61 occurred in India, where production returned to a more normal level after a severe drop in the previous year. The remaining 0.7-million-bale increase is accounted for mainly by Mexico, Brazil, Argentina, Greece, Egypt, and Sudan. Lower production was reported in Congo, Turkey, Uganda, and Spain.

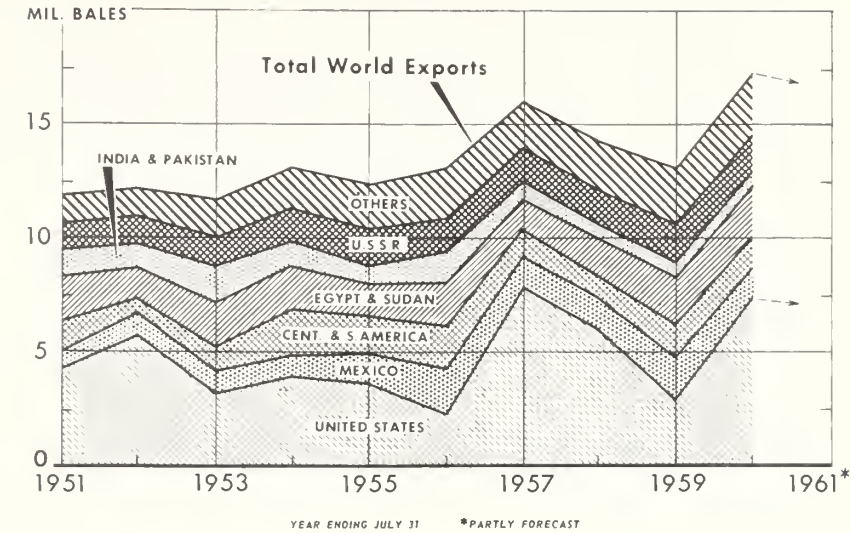
The principal factors that appear to be responsible for the steady rise in foreign production in recent years appear to be (1) efforts in such countries as India, Spain, Colombia, Argentina, and Communist China to raise production to the level of domestic mill requirements, (2) government-sponsored economic development program under which greater cotton production is emphasized, (3) a steady uptrend in cotton consumption outside the United States, and (4) a gradual rise in world prices for upland type cotton since early 1959, based partly on the stabilizing effect of the U.S. export sales programs.

These stimulating influences are still present, with some limitations, and are likely to be reflected in further increases in foreign production. The extent and rate of increase will be determined mainly by the level of world prices, which are currently considered by foreign producers as encouraging. Plans for increases in acreage for 1961-62 have been reported from Mexico, El Salvador, Brazil, Colombia, Sudan, Syria, Turkey, India, Pakistan, Spain, and Greece. A number of other countries, including the Soviet Union, Communist China, Argentina, Australia, and the Union of South Africa, have perennial plans for production increases, mostly to meet domestic mill needs.

Aggregate production in Communist countries has been sharply reduced from 15.4 million bales last season to an estimated 14.4 million in 1960-61. The crop in Communist China is down by an estimated 0.5 million bales because of drought in many areas, floods in others, and widespread insect damage. A cold, late spring retarded the Soviet Union's crop, and some cotton had not been harvested when adverse fall weather arrived. Production in that country in 1960-61 was estimated at 6.8 million bales, compared with 7.3 million in 1959-60.

Production of extra-long staple cotton in the Free World in 1960-61 is estimated at slightly less than 1.9 million bales, down 1 percent from 1959-60 and 7 percent below 1958-59. Egypt's acreage of extra-long staple rose in 1960 but yields are lower so that estimated production is down from 1,074,000 bales in 1959-60 to 1,019,000 in 1960-61. U.S. American-Egyptian production is down from 71,000 to 67,000 bales. Production is larger in Sudan and Peru, although the estimate for Sudan's crop was reduced recently because of insect damage.

World Cotton Exports Continue Near 1959-60 Record Level



Trade

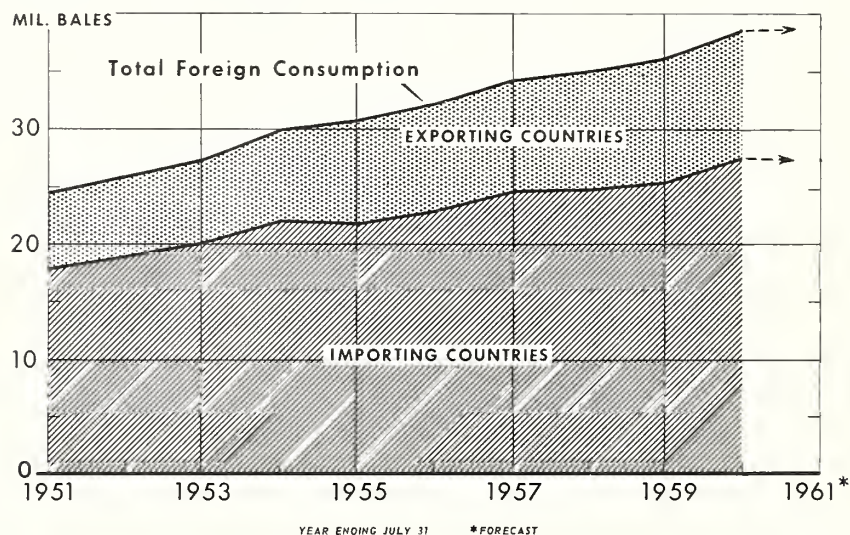
World cotton trade in 1960-61 is expected to total about 16.0 million bales, which would be second only to the 1959-60 record high of 17.2 million. The principal reason for the moderate reduction in trade this year is that the buildup in raw cotton inventories that occurred in importing countries last year was not necessary in 1960-61. These countries entered the 1960-61 season with much larger inventories than in 1959.

Exports during the first 4 to 7 months of the current season are somewhat lower than for the comparable period a year ago in Brazil, Egypt, Greece, India, Sudan, Syria, and Turkey. They are partly offset by larger exports from Mexico, Pakistan, Peru, Colombia, and a few minor exporting countries. The decline in exports during these early months in most cases may be a result of low available stocks on August 1, 1960. Export demand has continued strong, and larger exports from most foreign countries were expected after the 1960 crops began to reach the markets late in 1960.

U.S. exports during August-February 1960-61 totaled 4,272,000 running bales, an increase of 227,000 bales over exports during a similar period a year ago. Registrations of 6.0 million bales through April 7, 1961, for export in 1960-61 are 218,000 bales less than those for a similar period last year.

Unusually heavy sales currently for deferred shipment after July 31, 1961, when the higher export payment rate becomes effective, may retard the U.S. export movement to some extent in May-July quarter and result in 1960-61 exports about 10 percent under last year's total of 7.2 million running bales. A corresponding increase in first quarter 1961-62 exports may be expected, but the total for the year will probably be as much as a million bales below the estimate for 1960-61. Export prices of U.S. cotton are still competitive with those of other growths despite a slight rise in February and March. The U.S. market base will be higher in 1961-62 than in 1960-61 but the difference is nearly offset by an increase in the export payment rate to be effective August 1, 1961. Mills in most foreign countries were still operating during the first half of the 1960-61 season, at last year's record level, and the exportable supplies of cotton available from other exporting countries in 1960-61 are not abnormally large. These conditions indicate a probable strong export demand for U.S. cotton through the remainder of 1961.

Cotton Use Abroad Continues at Last Year's Record Level



USDA

FAS-NEG. 2231

Exports from Communist countries in 1960-61 probably will be down by 0.5 million bales from the estimated 1.8 million bales exported in 1959-60, since the 1960 crops in the Soviet Union and China were each about 0.5 million bales smaller than in 1959. Lower production may not be fully reflected in reduced exports because those countries normally increase imports and reduce mill consumption in years of short supply of cotton. The Soviet Union is the only Communist country that has any significant export trade in cotton. In 1959, however, China shipped more than 300,000 bales to the Soviet Union in payment for imported merchandise. It was able to do so because it had a large 1958 crop and curtailed supplies for home consumption. China's poor crops in 1959 and 1960 may have eliminated most of this trade in 1960-61.

Consumption

World cotton consumption in 1960-61 is expected to be about 46.7 million bales, about 1.0 million below 1959-60, with nearly all the reduction in the United States, the Soviet Union, and China. This is still the second highest world total on record.

Midseason reports from foreign Free World countries indicate that consumption in most of them is continuing at last year's record level or is higher. The total for foreign Free World countries may be up by 0.3 million bales above the 1959-60 estimate of 22.0 million. The principal countries in which consumption has been exceeding last year's rate during the first 4 to 7 months of the 1960-61 season are Austria, Belgium, Canada, Denmark, France, West Germany, Hong Kong, India, Italy, Japan, Netherlands, Portugal, Spain, and Switzerland. In 9 of these 14 countries, the increases are more than 5 percent. In Belgium, Denmark, Hong Kong, Japan, Portugal, and Switzerland the increases are more than 10 percent. Consumption in the United Kingdom during the first half of the season was reported at 634,000 bales, about 5 percent below the first half of last season (table 1).

Consumption in the United States in 1960-61 is estimated at 8.0 million bales, a decrease of 1.0 million bales from 1959-60, following 2 consecutive years of modest increases. The ratios of unfilled orders to inventories of broad woven goods in the August 1960-January 1961 period indicate no upturn in cotton consumption is likely during the remainder of the 1960-61 season. The extent of eventual recovery in the U.S. cotton textile industry will be determined partly by the ability of the U.S. industry to compete with man-made fibers and imported textiles

of all types after the CCC support level for cotton and the rate of cotton export payments are increased in the 1961-62 season.

Consumption in the Communist countries probably will not change greatly from the 1959-60 levels, except in the Soviet Union and China, where 1960 crops were reduced by unfavorable weather. The Communist countries as a group consumed an estimated 16.9 million bales in 1959-60, and consumption may decline by around 0.5 million in 1960-61 as a result of the million-bale drop in cotton production.

Price Movements

Prices of upland type cotton as quoted on the Liverpool market have shown some upward trend since early 1959, with more substantial gains in recent months. Prices of most foreign growths of upland cotton are now 3 to 5 cents a pound higher than at the low points in 1959. Prices of U.S. cotton for export are also higher, but with wide variations in spreads between the higher and lower qualities.

The strength in world cotton markets during the past 2 years may be attributed mainly to (1) a small excess of world consumption over world production, resulting in a stock reduction of about 1.3 million bales, or 6 percent, (2) a record level of consumption abroad while importing countries were rebuilding depleted stocks, and (3) the stabilizing effect of U.S. export sales programs.

Further strength was added to world markets in 1960-61 as a result of abnormally large purchases by India necessitated by a very short crop in 1959 and of heavier purchases by the Communist countries because of the poor crops in China and the Soviet Union in 1960. The relatively low level of stocks in most foreign exporting countries on August 1, 1960, also provided some strength for world markets during the last half of 1960.

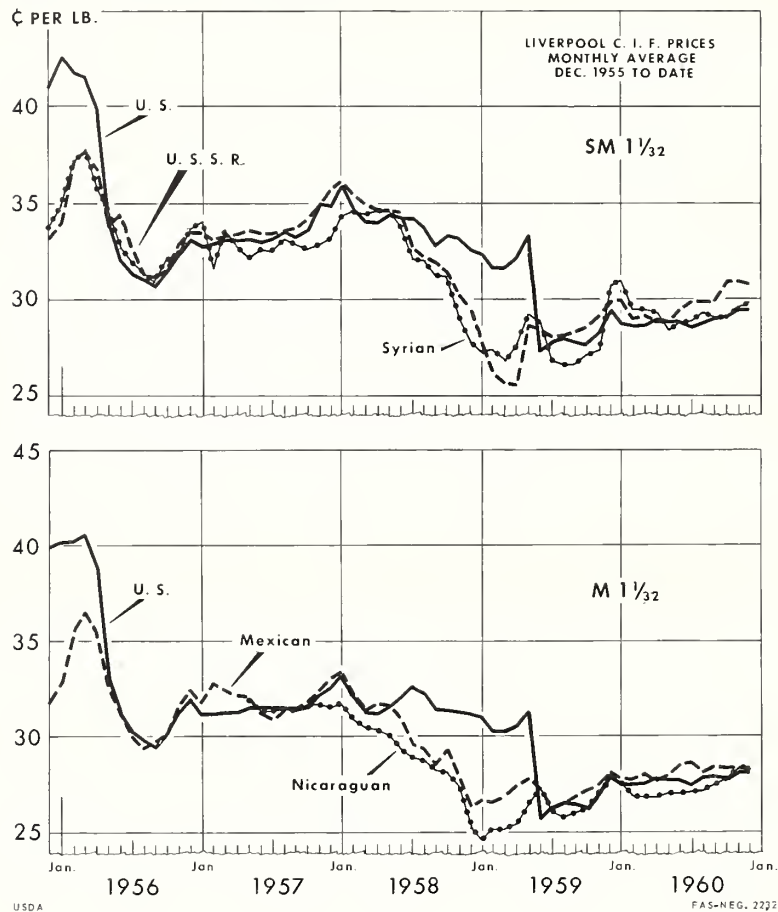
U.S. average 14 spot market prices for Middling 1 inch cotton increased by about 0.32 cent a pound between August 1960 and February 1961, but prices of the lower grades, which were in shorter supply, increased more. The average spot market price for Middling 1 inch cotton on April 12 was 0.93 cent a pound higher than on February 21, when higher price supports for the 1961 crop were announced. Increases in prices for lower grades have been somewhat larger than for Middling 1 inch cotton. The price increases were reflected in higher export prices for cotton to be shipped before August 1, but current sales of existing stocks for shipment after July 31 are heavy because of discounts offered after the higher export payment rate becomes effective on August 1, 1961. U.S. cotton is still competitive on export markets, because prices of most other growths have also increased.

The U.S. export payment-in-kind rate was reduced from 8 cents a pound in 1959-60 to 6 cents on August 1, 1960, and will be changed again on August 1, 1961, to 8.5 cents. The reduction on August 1, 1960, had no significant effect on export prices because of offsetting reductions in the support price and CCC minimum sales prices.

The 2.5-cent increase in the initial export payment rate for 1961-62 will not lower the export price because it will be more than offset by an increase of 3.75 cents in the average 1961 domestic support level over the CCC minimum sales price by local sales agents for 1960 crop upland cotton in August and September 1960. This has the effect of raising the base for export prices in 1961-62 by 1.25 cents over that of a year earlier, but fluctuations in actual market quotations based on other factors can increase or reduce this difference.

Prices of extra long staple cotton other than American Egyptian, which had made substantial recovery by the beginning of the 1959-60 season from the near unprecedented lows of March 1959, rose about 10 cents per pound early in 1960 and held at stable levels of around 50 cents per pound until recently. This recent weakening is attributable largely to decreased takings by Communist countries. The present price outlook for this specialty cotton is uncertain, since

Cotton Prices Competitive and Firm On World Markets



world supplies are continuing close to the alltime record of 2.7 million bales in 1958-59; production appears to respond little to demand or price changes; and the total volume of consumption, although up in 1959-60 in the Free World more than 20 percent from a year earlier and nearly 60 percent above 1958-59, is substantially dependent on takings by the Communist countries.

Recent price declines were attributed to slow movement into export channels of the current Egyptian, Sudanese, and Peruvian crops. At the same time sizable sales of Egyptian extra long staple were reported made to hard currency countries at substantial price discounts. Current prices of U.S. extra long staple cotton, supported at 65 percent of parity, are about 1.5 cents per pound above prices of competing foreign growths delivered at domestic mill points on the East Coast.

COMPETITIVE POSITION

Prospects over the next several years for U.S. cotton exports and for world trade in cotton are encouraging. These projections for raw cotton are based upon the following assumptions:

The United States will be a reliable source of supply for cotton that is priced competitively with other growths; and it will continue to make strides in research and sales promotion that will help cotton forge ahead despite intensified competition from man-made fibers.

The future appears much less bright for world trade in cotton textiles. Deficit textile producing countries continue to expand production facilities and to hold imports of textiles to a minimum, building up protectionism. Within such trading blocs as the Common Market (European Economic Community) and EFTA (European Free Trade Association), however, considerable quantities of cotton textiles will continue to move from country to country, both before and after their economic integration.

Natural, Economic, and Political Considerations

Weather and factors closely associated with it exert a strong influence upon cotton production. Dry weather or excessive rains may force a delay in planting a crop. Also, extremes of weather in the growing season may adversely affect the size or the quality of the crop or both. Part of weather's influence on quality arises from its relations to insect and disease conditions. This season, these and other effects of weather are reflected in reports of short crops in Red China and the USSR, in record-high yields in Colombia, and in the severe pink bollworm situation that has cut yields in Argentina during the past two seasons, to mention but a few examples.

With weather playing such an important role in cotton production, forecasting what the future holds is always subject to revision. Nevertheless, the U.S. stake in developments throughout the world of cotton is so great that it is necessary to attempt a forward look at some of the factors that are likely to be important in the years ahead.

In the United States, a major factor is the acreage controls that have been in effect continuously since 1954-55 with prices to producers supported at prevailing levels. At the present level of domestic market prices, U.S. producers would grow substantially more cotton if not effectively barred from doing so by the heavy penalties imposed for marketing excess cotton. Abroad, only a few countries employ active government policies restraining producers from responding to forces leading to expansion. In fact, most foreign producing countries use some type of subsidy designed to increase production and exports, and maintain controls on imports of cotton.

Also, one of the more important forces affecting changes in cotton production are changes in the level of world prices. Assuming a continuation of world prices at present levels, it appears that several growth factors will exist simultaneously:

(1) A continued upward trend in total foreign cotton production, (2) a continued upward pressure on U.S. cotton production, largely neutralized by effective acreage limitations, (3) an upward trend in world consumption of cotton, and (4) an upward trend in world production of competitive textile raw materials, especially man-made fibers. Only time will reveal whether the rates of gain in these items are such as to maintain the balanced pattern of world cotton production and consumption of 1960-61.

Foreign Consumption

Foreign consumption of raw cotton has increased sharply in a number of countries where spinning capacity has expanded. Some of these countries have also markedly increased their production of raw cotton. Some, however — Hong Kong, Indonesia, the Philippines, and Taiwan — produce little or no cotton and therefore represent expanding markets for raw cotton.

Enlarged textile industries in some countries have been concomitant with decreased demand for imported textiles; in others, increased production of textiles has resulted in additional export availability or in increased supplies for the domestic market or both. However, cotton consumption in most foreign countries is expected to continue to increase as populations expand, as productivity increases in all lines of endeavor, and as higher levels of living are reached.

In recent years, much old cotton mill equipment has been scrapped and only a portion has been replaced with modern equipment. Also, Japan has controlled the amount of machinery that could operate by sealing excess machinery under government orders. The net result for foreign countries as a whole has been that productivity of the remaining equipment has increased, and total cotton consumption has expanded significantly.

Competition from Man-Made Fibers

It is reasonable to expect continued strong competition from man-made textile fibers under their present price relationship to cotton and wool. Production facilities for rayon staple will probably continue to be constructed, especially in those countries which now have small capacity relative to total size of their textile industries. Production facilities for other types of man-made fibers are also being constructed, but the bulk of this capacity is being added in countries with well-established and more diversified textile industries.

In some heavily industrialized countries, there is considerable current interest in non-cellulosic fibers that are produced from less-expensive raw materials. If these fibers prove to have desirable properties for end-uses now served importantly by cotton and rayon, competition may intensify since, up until now, noncellulosic textile fibers have been sold on their end-use characteristics despite relatively high prices.

International Economic Integration

The European Economic Community and the European Free Trade Association and other trade blocs less fully developed may come to have an influence on the volume and sources of raw cotton entering the affiliated countries, but probably these economic blocs will have a greater influence on the patterns of trade in cotton textiles.

With the expectation of intensified competition deriving from these trade blocs, many small textile companies have consolidated into stronger firms, the less-efficient productive capacity eliminated, and the remaining plants modernized. Much of this has taken place on the basis of private initiative for the purpose of improving the position of the particular firms within the textile industries of these blocs. Governmental assistance has also played an important part in strengthening the position of the textile industries in some countries.

Internal tariffs among the Common Market countries had undergone two reductions totaling 30 percent as of January 1, 1961, and the first steps toward a common external tariff on industrial commodities were taken then. EFTA countries are moving more slowly, but expect also to be enveloped in a tariff structure that will make it harder for "outsiders" to sell textiles and many other products into the EFTA area than it will be for member countries.

Some Europeans believe it will be necessary for the European bloc countries to develop a unified approach for meeting the alleged continued threat of a flood of textile imports from low-cost producers in Asian countries. The cost structure of these Asian textile manufacturers is believed by the Europeans to be such that the common external tariff would provide inadequate protection to their industries, even though their efficiency as a whole has improved. Should such a unified approach be developed and prove effective, Asian suppliers would be expected to intensify their efforts to enlarge their markets elsewhere.

It is generally assumed that the period of economic adjustment within the Common Market and EFTA will be followed by a rising level of living for the populations of these areas. Increased consumption of textiles, in which cotton can be expected to share, will undoubtedly accompany such a development.

Other Actions of Foreign Governments

Other actions of foreign governments continue to influence cotton production and international trade in raw fibers and textiles. Production and export incentives remain in effect in a

large number of countries. Other government programs aimed less directly at cotton and/or textiles than at general economic development also continue to bear significantly upon production and trade.

Japan, the largest single customer for U.S. cotton, liberalized cotton imports on April 1, 1961. The import license system in effect prior to this liberalization had had the effect of limiting the quantities of cotton that could be imported from dollar sources. Therefore, short-term benefits may derive from the liberalization measures. However, it is likely that the Japanese textile industry in cooperation with the Japanese Government will devise other means of self-regulation, such as tighter controls over textile production. As competition among Japanese producers intensified, such devices would in effect prevent unlimited imports of raw cotton and avoid overproduction of cotton textiles from reaching a point that would seriously weaken prices.

The gradual elimination of the 6-percent tariff on raw cotton in Italy, as scheduled under the Common Market agreement, could have some small effect on the relative position of cotton in that market, but not if it should be accompanied by reductions in prices of rayon staple. In theory, at least, the demand for cotton and rayon textile products may be improved if such reductions in raw material prices were reflected at the retail level.

Several low-cost Asian producers of cotton textiles continue to utilize the technique of "voluntary export quotas" to forestall action, perhaps of a more permanent nature, on the part of certain textile importing countries. The voluntary quota system has provided effective control of textile exports from some countries to other countries with which control agreements are in force, but neither the textile exporters of the country of origin nor the textile manufacturers in the country of destination are fully satisfied with the system. However, the quotas may have served a useful purpose even though they are, at most, temporary measures. They can be circumvented by the importing countries developing other similarly low-cost sources of supply. The specter of large-volume exports at "political" prices from Communist China, which conducts its textile export programs on a state trading basis, continues to haunt the textile traders in other countries.

DEVELOPING MARKETS ABROAD FOR U.S. COTTON

Market Promotion

The market development program to expand cotton consumption in foreign countries and create additional market opportunities for U.S. cotton moved forward with encouraging results in 1960. Three new programs entered into in 1960 with cotton industry organizations in Norway, Colombia, and Denmark extended cotton market development to 17 countries, and several cotton producing nations have begun promising new activities. Currently, the Cotton Council International is working to develop new cooperative country programs with cotton industry organizations in Australia, Canada, Portugal, Mexico, Peru, and Brazil.

In the course of 1960, cooperative sales promotion, public relations, and market research for cotton continued under the most advanced and successful programs in most of the large Free World consuming countries. These programs were carried out in Austria, Belgium, Colombia, Denmark, Finland, France, West Germany, India, Italy, Japan, the Netherlands, Norway, the Philippines, Spain, Sweden, Switzerland, and the United Kingdom.

The importance and significance of the cotton market development program is underscored by the fact that, together with the United States, the nations participating account for 77 percent of the Free World's consumption of raw cotton. Also, the countries in which cooperative programs are now in operation represent three-fourths of the current export market for U.S. cotton.

In these programs, the word "cooperative" is indeed significant and is, in large part, a key to their success. After enactment of Public Law 480 in 1954, which provided for the use of

foreign currencies obtained from the sale of surplus commodities to develop markets for U.S. farm products, the Foreign Agricultural Service entered into a program, on a cooperative basis, with the Cotton Council International to promote greater consumption of cotton and cotton products in foreign countries. The cooperative theme was followed further in planning the program, so that cotton industries in foreign countries assumed joint responsibility by financing one-half of the costs and carrying out specific projects. Through cooperative financing and technical assistance in the early years of getting cotton promotion under way, in various countries, it is intended that the foreign industry groups will take over total financing of programs when well established. A significant result of the program has been the encouragement of individual firms to expand their expenditures for promotion and advertising many times the amount being expended under the project.



Fashion show in Japan features cotton dresses in Western styles. In Japan, largest foreign market for U.S. cotton, USDA and Cotton Council International have had market development project for some years.

A large number of the cooperating foreign industry organizations have most of the elements of the basic program, and some have more. Basic features consists of varying forms of cotton news and photo services, an educational program for schools, a loan library for films and other audio-visual materials, an industry bulletin, regular contacts with fashion designers and leaders, seasonal fashion shows, with news and photo coverage, and fashion advertising. Not to be overlooked are general consumer advertising for products other than fashion, trade publication advertising, sales training for retail clerks, and such complete retailer promotions as Cotton Week, Spring White Sales, and Back-to-School campaigns. Basic to the promotion activities are the fact-finding and analytical market research surveys which identify and measure quantities of cotton used in major end-uses and their annual trends.

Many of the foreign cooperative cotton groups are now branching out and developing new approaches and techniques of promotion, including features especially useful in their particular country. In 1960, and coming years, for example, more specialized projects, such as awards to fashion and textile designers, men's wear, work clothes, and children's wear campaigns, home economic instruction, home sewing contests, household fabrics promotions, and consumer preference surveys, are being worked into the basic program as circumstances permit.

A better understanding of the program's objectives and achievements is afforded by highlights of some of the activities in various countries during 1960. These illustrations, while no means complete, are typical of the work that is under way, and show how wide it is in scope.

In Austria, requests were received from 9,000 retailers for posters and other sales aids for the spring "White Sales". Laundries in Belgium placed 500,000 bands with a legend pertain-

ing to cotton around shirts of men customers. Advertising slides on cotton's qualities were shown in 63 theaters in 57 cities in Finland, reaching an estimated 827,000 persons.

More than 20 pages of fashion ads featuring cottons in top collections were published in France, plus more than 52 pages of ads for other cotton products. In Germany, over 1,200 retail clerks attended sales training classes, and over 4 million cotton identification labels were distributed to manufacturers. Cooperation of retailers in Spain showed a gain over 1959, with participation increases of 10 percent in back-to-school promotion and 34 percent in the most successful Cotton Week ever. The 1960 program in Sweden featured nationwide introduction of winter cottons — heavier, darker fabrics — for use into the cool seasons, and the use of cotton fabrics in a sewing contest organized by a leading weekly women's magazine. The British Cotton Board arranged for 5,000 showings of some 220 cotton films to 500,000 persons.

The President of Italy inaugurated the Naples Exhibition "Cotton in Furnishings" in 1960. In the Netherlands, Queen Juliana held a reception, widely covered by reporters, for top winners in the nationwide Golden Cotton Boll Contest, in which fashion designers competed for the best work in cotton.

In her 1960 tour to 6 countries in Western Europe, the Maid of Cotton was received by 8 mayors, a governor, 3 princesses, one prince, 5 ministers, and a former prime minister. The Maid attended, as guest of honor, 49 official functions, 21 fashion shows attended by 5,800 persons, and was interviewed on television 3 times, filmed for television on 14 occasions, and starred in a film featuring her visits to Paris fashion houses, which is being used in several countries.

In Japan, which imported 1.6 million bales of U.S. cotton for dollars in the 1959-60 season, members of the All Japan Cotton Spinners Association have continued to increase their investment in cotton promotion activities until it is now several times the annual expenditure under the cooperative program.

An important feature of the cotton market development work is the increased attention being given to developing projects in cotton producing countries. Emphasis is being placed on encouraging those countries to undertake domestic cotton promotion programs to expand their own consumption, and later to participate in international promotion to expand cotton consumption in importing countries. The CCI is already working toward these objectives with cotton industry organizations in Latin America and the Middle East that have endorsed the concept of expanding markets for cotton. The International Federation of Cotton and Allied Textile Industries also continues to encourage participation in international promotion by other producing countries.

In May 1960, the Mexican industry created The Mexican Committee for Cotton Consumption, and fashion, educational, and technical research projects have been started. Market research being conducted by Colombia's Institute for Cotton Development will provide guides to increase consumption in Colombia and other developing areas. Promotion activities are being carried out by the domestic cotton industries in Brazil and the United Arab Republic. And the Sudanese industry is considering new projects in international promotion.

Cotton Exhibits at International Trade Fairs

As a part of the broad program for market development carried on by the Foreign Agricultural Service in cooperation with the U.S. agricultural industry, exhibits devoted to the promotion of cotton were held at international trade fairs in Spain and Yugoslavia in 1960. The all-cotton U.S. exhibit at Barcelona's XXVIII Official International Samples Fair in June 1960 was characterized by several "firsts". As evidence of the success of the exhibit in promoting uses of cotton products in homes, industries, and young people's clothing, the exhibit was the first in the history of the Fair to be awarded three silver plaques for excellence. Representing one of the largest and most comprehensive foreign trade fair activities yet undertaken by USDA, this

was the first exhibit to be devoted exclusively to promotion of one agricultural commodity, appropriately cotton, in overseas markets.

The U.S. and Spanish cotton industries helped procure the wide variety of cotton items needed. The Spanish Cotton Textile Service staged continuous fashion skits featuring children's and teenagers' clothing, which proved clever and a highlight of the exhibit. A consumer booklet printed in Spanish and English and inexpensive cotton souvenirs were given to thousands of exhibit visitors. An illustrated report on the exhibit was published in October 1960.

The cotton exhibit at the International Trade Fair in Zagreb, Yugoslavia, in September 1960 featured exhibits of cotton apparel and industrial goods treated for flame resistance, waterproofing, permanent creasing, wash-and-wear, and stretchability. There was also a fashion presentation of 32 garments ranging from pajamas to evening wear. About 1,450,000 people saw the exhibit, and reactions were very favorable with numerous individuals expressing pleasure at seeing the colorful and attractive cotton consumer goods in contrast to heavy machinery exhibited elsewhere in the Fair.



Some 48,000 people packed U.S. Pavilion at 1960 Barcelona Fair, where U.S. exhibit was devoted to cotton. Such showings are a part of USDA's program to develop markets abroad for U.S. cotton.

As a general type of promotion directed at consumers at large, these exhibits evidently did much to stimulate demand for a wide range of cotton products in these large cotton consuming countries. However, a further important step toward promotion effectiveness was taken. Cotton trade and textile manufacturing groups were invited to special viewings of the exhibit and special demonstrations and technical discussions. There was considerable interest by these groups in details of technical and marketing information, and many invitations were extended by mills, universities, research institutions, and others for FAS cotton specialists to visit them individually. It is evident that the carefully planned U.S. cotton exhibits at international trade fairs have attracted the interest not only of consumers but trade groups and manufacturers as well.

Export Financing Programs

The U.S. has several special cotton export programs designed to (1) overcome the difficulties of eligible foreign countries in financing imports, (2) assist in the economic growth of friendly nations, and (3) help maintain foreign markets for U.S. cotton. Exports under these assistance programs are a part of, and not in addition to, exports under the competitive pricing program discussed in another part of this report.

Foremost among these special programs from the standpoint of volume are the export sales of U.S. cotton for foreign currencies under Title I of Public Law 480 and the Mutual Security program. In the past 6 years, sales for export under these two programs have ranged from a high of 52 percent of total exports in 1955-56 to a low of 17 percent in 1959-60. The funds programmed thus far in 1960-61, if completely used, would finance the export of about 1.8 million bales of cotton compared with 1.1 million bales financed a year earlier. An increase under Title I from 0.7 million bales in 1959-60 to around 1.5 million in 1960-61 more than offsets a decline in volume under the Mutual Security program from 0.4 million to about 0.3 million bales.

Surplus cotton can be donated to friendly foreign nations to meet flood, famine, and urgent or extraordinary relief needs under provisions of Title II of Public Law 480. Since food is usually the primary need in disaster areas, donations of cotton have been relatively small. The relief shipments have averaged about 12,000 bales annually over the past 6 fiscal years. Donations for export may also be made under Title III, P. L. 480, to relief organizations for distribution abroad to needy people, but no cotton has been donated under this proviso.

Barter is yet another method by which U.S. cotton is marketed abroad. The volume of U.S. cotton exported under barter arrangements reached a total of 970,000 bales in 1956-57, or 13 percent of total cotton exports. Exports under barter have declined in the last 3 years and were only 112,000 bales, or 2 percent of the total, in 1959-60, reflecting more stringent barter conditions. A further slight decline is expected in 1960-61, according to present indications.

TABLE 2.—U.S. cotton exports under designated programs, exports for dollars, and total exports, 1954-59

Year ending June 30	Public Law 480, Titles I and II <u>1/</u>	Mutual Security program <u>2/</u>	Barter	Dollar exports		Total exports
				Export- Import Bank loans	Total <u>3/</u>	
	1,000 bales	1,000 bales	1,000 bales	1,000 bales	1,000 bales	1,000 bales
1955.	63	1,085	2	307	2,466	3,616
1956.	491	625	51	334	972	2,139
1957.	1,381	857	970	<u>4/</u> 421	4,107	7,315
1958.	888	662	465	727	3,651	5,666
1959.	646	729	376	333	1,378	3,129
1960.	714	407	112	297	5,402	6,635

1/ Includes the following for famine relief and other assistance under Title II: 1955, 5,000 bales; 1956, 22,000 bales; 1957, 1,000 bales; 1958, 26,000 bales; 1959, 7,000 bales; 1960, 10,000 bales.

2/ Bales estimated from records maintained on a value basis by crop years by Cotton Branch, International Cooperation Administration.

3/ Includes Export-Import Bank loans, cash dollar sales, and adjustments for differences in reporting data.

4/ Includes 3,000 bales exported under CCC credit program; no exports under that program in other years shown.

Credit for dollar purchases, repayable in dollars, is available to foreign customers of U.S. cotton. Export-Import Bank loans financed the export of an average 403,000 bales per year, or about 8.5 percent of total exports in the past 6 fiscal years. Exports under the CCC credit sales program have been small, totaling only 3,000 bales in 1956.

Total sales of cotton for dollars, including dollar loans, over the last 6 fiscal years varied from 44 to 81 percent of total cotton exports. It now appears that dollar sales in 1960-61 (fiscal year) will comprise about 67 percent of the estimated total of around 7.0 million bales compared with 81 percent of 6.6 million bales in 1959-60.

Report on U.S. Cotton Bale Package in Export Markets

Shortcomings of the U.S. cotton bale package are said frequently to be responsible for sizable economic losses and to be detrimental to export sales of U.S. cotton. In a summary report published in 1960, information on these shortcomings, gathered earlier in 11 important foreign markets, is reported, along with recommendations on how the competitive position of U.S. cotton in world markets might be improved by better bale packaging and preservation of quality.

Findings show that deficiencies in the cotton bale package and surface conditions of exported U.S. cotton added an estimated 78 cents per bale to 1957-58 costs. Important nonmeasurable considerations include the effects on foreign spinners' processing efficiencies and product qualities and of surface contaminants not removed in preprocess cleaning of bale surfaces, as well as the effects of extra costs on exports and prices of U.S. cotton.

Using these findings along with similar studies in the domestic market, the National Cotton Council is working with various segments of the U.S. raw cotton industry to improve packaging and cotton quality.

MARKET INFORMATION AND SERVICES

Foreign Market Reports

Comprehensive information, on a current and continuing basis, relative to all phases of the world cotton supply and demand situation is a primary requisite for developing and maintaining export markets for U.S. cotton.

Such information, received regularly from U.S. agricultural attachés and agricultural officers stationed at some 50 posts around the world and from Embassy officers at other posts, is analyzed and published. Statistics and information on foreign market conditions are obtained also from international organizations, foreign governments, trade and industry sources abroad, and international news and advisory services.

Reports on "World Cotton Supply and Demand" are published twice a year. Analyses of such material in published and unpublished form provide the U.S. cotton industry with current information and outlook relating to foreign competition and demand.

Current developments on cotton in foreign countries are analyzed and published weekly by FAS in Foreign Crops and Markets. In addition, circulars are issued on a prearranged schedule, containing detailed analyses and statistics on foreign cotton production, trade, consumption, stocks, and prices, as well as on the market situation in individual foreign countries, both producing and consuming. For example, a report is now being prepared on the cotton situation in Japan, including the probable effect of such factors as liberalized trading which became effective April 1, 1961, on U.S. exports.

Other special publications on analyses of various aspects of the world cotton situation and outlook are prepared at frequent intervals. These publications, as well as those mentioned

above, go to all segments of the U.S. cotton industry and to interested groups abroad, and are widely reprinted. In addition, special reports and feature articles are prepared for publication in the monthly Foreign Agriculture, as well as in the trade publications, such as the weekly issues of The Cotton Trade Journal and the Journal's International Yearbook.

Weekly reports and analyses of foreign market and price information are prepared as a special intelligence service to Commodity Credit Corporation for use in the cotton export program. Constituting one of CCC's main sources of information on the price competitiveness and movement into world trade of U.S. and other growths of cotton, these reports and analyses form an important basis for price policy formulation and export program changes, when necessary.

Also, reports are prepared on U.S. programs on cotton production, exports, and prices as they relate to U.S. exports as well as to the supply and demand situation abroad. These reports contain prompt, factual information and interpretations. Since U.S. actions are important to foreign cotton producing and consuming countries, these reports on programs and policies are particularly useful to attachés and other officers stationed in foreign countries in their contacts with government and trade representatives.

Market Surveys and Liaison Work

First-hand surveys of markets in importing countries by marketing specialists are an important part of the program for developing and maintaining foreign markets for U.S. cotton. The surveys provide a basis for more comprehensive evaluations of government export programs, such as sales for foreign currencies under Title I of Public Law 480, and the market development activities. In countries where there are cotton programs, the marketing specialists appraise the detailed working and problems related to such programs.

These marketing specialists also perform two other important functions — serving as good-will ambassadors abroad for U.S. cotton and keeping the U.S. cotton trade and industry informed on activities and developments in foreign markets. To facilitate the export marketing of U.S. cotton, foreign trade groups are informed first hand about types and qualities of U.S. cotton available for export; grading and quality testing methods; and the latest developments of research on cotton marketings and utilization. Also, foreign governments and cotton industry groups and organizations are informed of the various programs and policies of the U.S. Government. In addition, the U.S. cotton trade is informed of developments abroad through visits by the specialists to various parts of the U.S. Cotton Belt and by published circulars, reports, and other means of communication.

During the calendar year 1960, the marketing specialists consulted with foreign cotton interests in 19 countries around the world — 2 European, 2 African, and 15 Asian. In Burma and Indonesia, for example, numerous problems were worked out regarding the Title I, P. L. 480, cotton programs involving third-country processing arrangements. A survey of textile industries in Africa and their cotton needs was begun, as well as a report on Morocco's industry. Visits to Ethiopia, Rhodesia, and the Union of South Africa will be made in the future. These are among the countries in Africa which import U.S. cotton.

Technical Services

The effectiveness of the technical liaison service which is maintained with foreign cotton buyers and processors is becoming increasingly apparent. Demand by foreign customers is growing for technical information and data on manufacturing processes, the use of mechanical and chemical testing to evaluate quality, and for the improved utilization of cotton in making new and better products. The various segments of the industry in many countries have demonstrated their interest in obtaining more scientific knowledge about the use of U.S. cotton for comparison with other growths. Periodic visits and consultations through the technical liaison service program provide an important means for using the results of scientific research studies to highlight the superior characteristics of U.S. cotton and expand its uses abroad through better utilization.

Official Business

In 1960 a cotton technologist consulted with customers and users of U.S. cotton in 8 Asian and 7 Western European countries. There, he discussed the latest developments in fiber and textile technology with cotton importers, mill personnel, research scientists, machinery and instrument developers, and others. Some of these conferences were the outgrowth of meetings held with industry personnel in connection with the exhibits at the international trade fairs in Spain and Yugoslavia. These conferences covered a wide range of interests from discussions about new and improved varieties of U.S. cotton and scientific developments in raw cotton quality and evaluation to demonstrations and explanations of the latest results in chemical finishes that impart new and improved properties of cotton fabrics.

Competition Studies

Researchers give close attention to developments in other cotton producing countries. This activity involves keeping in touch with the research work conducted abroad that has a bearing on future cotton production, as well as with leaders in other phases of cotton production and trade. Other areas in which developments are followed, include: (1) production and use of man-made fibers in various foreign textile producing countries, (2) foreign trade in textiles, and (3) developments in foreign government regulations, tariffs, etc., that affect international trade in cotton and man-made fibers and textiles manufactured therefrom.

During 1960, on-the-spot studies were made of raw cotton production and the textile industry of Spain and of interfiber competition in Japan. Manuscripts were completed and are in the process of publication on interfiber competition in Western Europe and the cotton and cotton-textile situation and outlook in Colombia.